



August 9, 2016

City of Saskatoon Standing Policy Committee on Finance (“SPCF”)
222 Third Avenue North
Saskatoon, Saskatchewan S7K 0J5

Statement of Work – Review of Operating and Life Cycle Costs in Asset Management Plans and Annual Capital Budget Cycle

Recommendation:

- 1) That the enclosed Statement of Work for the Review of Operating and Life Cycle Costs in the Asset Management Plan and Capital Budget Cycle be approved.**
- 2) That the 45 unallocated hours in the audit plan (currently designated as unallocated in 2019) be used to cover 45 of the 470 hours in this Statement of Work. The total hours in each year of the Internal Audit Contract will remain at 1,400.**

Please find enclosed the Statement of Work for the above referenced project. Note that we have increased the scope from 425 hours as approved in the 2016 internal audit plan to 470 hours in order to allow for some components of the project that were not initially anticipated at the time the internal audit plan was developed. In order to cover these additional 45 hours, we propose that the 45 hours unallocated in the five-year audit plan be designated to this project. As a result, there will be no increase in the total hours contracted and we will continue to deliver 1,400 hours per year under the core contract.

Yours truly,
PricewaterhouseCoopers LLP

A handwritten signature in black ink, appearing to read "Jesse Radu", written over a light blue horizontal line.

Jesse Radu, CPA, CA
Partner

Statement of Work

Review of Operating and Life Cycle
Costs in Asset Management Plans
and Annual Capital Budget Cycle

Submitted on August 9, 2016 for
SPCF Public on August 15, 2016



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1. *Scope and approach*

The overall scope of the engagement is to review the current capital budgeting process and existing asset management plans to identify improvements, particularly with respect to how best to incorporate the impact of future operating costs and asset life cycle costs into new asset investment decisions.

The City is currently developing asset management plans for key categories of assets, which impacts existing asset maintenance decisions. There are many commonalities between the processes of a) estimating life cycle costs for asset management plans for existing assets and b) estimating operating cost impact and life cycle costs for new capital budget items. Key to both processes is having the right people involved and the proper access to information in order to estimate a) what it will cost to operate and maintain an asset over the course of its life and b) what type of ongoing investment will be needed to maintain the condition of the asset.

Through the course of this project, we will connect with a) key budgeting personnel in areas where asset management plans have been prepared and assess the extent to which they do (or do not) have the ability to properly incorporate life cycle costing principles into budget decisions and b) key budgeting personnel in capital intensive areas to assess the extent to which they do (or do not) have the ability to properly incorporate both ongoing operating costs and life cycle costs at the capital budgeting stage and directly link those costs to the annual operating budget.

The following areas will be in-scope for this project:

- Asset and Financial Management (overall responsibility for asset management plans, capital budget and operating budget)
- Transportation and Utilities – more specifically, Waste, Wastewater & Storm Water / Roads & Sidewalks; and
- Community Services – more specifically, Parks.

The assessment will delve into how the City of Saskatoon is able to capture a) ongoing operating costs and complete asset life cycle costs required for new capital projects in the annual capital budgets and b) complete asset life cycle costs for existing assets in asset management plans. The assessment will include a current state assessment of departmental processes (including current end-to-end information flow) and a review of recent annual capital budgets to determine the extent of operating costs captured directly therein and, if not captured directly therein, whether proper and transparent linkage exists between the capital budgets and the related operating budget costs.

PwC will also conduct a best-practices assessment (utilizing standards from industry and other comparable municipalities). We will provide a summary of best practices across comparable cities and similar departments. PwC will compare and contrast the current state assessment to the best-practices assessment in order to identify opportunities for improvement. To support consistency of information, PwC will provide standardized templates (or capture information that should be provided by all departments when proposing a capital project or developing an asset management plan).

2. *Timeline and deliverables*

Dates are estimates and may change, based on availability of information and both City of Saskatoon and PwC resources.

Deliverable	Details	Projected Delivery Date
Preliminary Observations and Recommendations to Review	Positive themes, key observations, risks and recommendations from the review will be discussed with the key contacts from the in-scope departments: Jason Turnbull, Teresa Quon, and Shelley Korte.	September
Draft Report to Management	Draft report provided for management review and feedback. To be provided to Clae Hack, Kari Smith, Nicole Garman and Kerry Tarasoff.	October
Final Report to SPCF	Final report to SPCF in-camera during a 10-15 minute presentation followed by question period.	November

We will communicate our progress regularly to key personnel and will arrange additional status update meetings as necessary to discuss any issues which may arise.

3. *Key contacts*

The key contacts for this project are:

- Jason Turnbull, Business Administration, Asset and Financial Management and Corporate Performance
- Teresa Quon, Business Administration, Community Services
- Shelley Korte, Business Administration, Transportation & Utilities
- Clae Hack, Director of Finance, Asset and Financial Management
- Kari Smith, Manager of Financial Planning, Asset and Financial Management
- Nicole Garman, Director of Corporate Risk
- Kerry Tarasoff, Chief Financial Officer

4. Budget

Our fees are based on actual hours incurred by PwC staff, at the below agreed upon hourly billing rate in the Internal Audit Services Agreement dated January 1, 2015. We estimate that our fees for the completion of our services under this Statement of Work will be \$77,500 plus out of pocket expenses and applicable taxes, which will be charged on an actual basis.

Role	Expected Hours
Engagement Partner	30
Quality Assurance Partner	15
Engagement Manager	155
Senior Auditor	135
Auditor	135
Total	470